

# CONGRESS Valuation Considerations

## CONGRESS DCF Analysis with Synergies & Transaction Expenses (continued)

(\$ in millions)

Perpetuity Growth Rate				
2.0%	3.0%	4.0%	5.0%	6.0%

Implied PV of Terminal Value @ 12.5% WACC				
\$1,065	\$1,189	\$1,342	\$1,535	\$1,788

WACC	Enterprise Value as of 12/31/02				
10.0%	\$1,998	\$2,239	\$2,560	\$3,010	\$3,685
11.0%	1,750	1,931	2,163	2,473	2,907
12.5%	1,467	1,591	1,744	1,937	2,190
14.0%	1,257	1,346	1,452	1,582	1,745
15.0%	1,145	1,217	1,303	1,405	1,531

WACC	Implied Terminal EBITDA Multiple				
10.0%	5.6x	6.5x	7.6x	9.2x	11.6x
11.0%	5.0	5.7	6.5	7.7	9.3
12.5%	4.3	4.8	5.4	6.2	7.2
14.0%	3.7	4.1	4.6	5.1	5.8
15.0%	3.4	3.8	4.2	4.6	5.2

(\$ in millions)

Terminal EBITDA Multiple Range				
6.0x	7.0x	8.0x	9.0x	10.0x

Implied Terminal P/E Multiple				
12.2x	13.7x	15.2x	16.7x	18.2x

WACC	Enterprise Value as of 12/31/02				
10.0%	\$2,109	\$2,388	\$2,667	\$2,946	\$3,225
11.0%	2,022	2,288	2,555	2,822	3,089
12.5%	1,899	2,149	2,398	2,648	2,897
14.0%	1,786	2,019	2,253	2,486	2,720
15.0%	1,715	1,938	2,162	2,385	2,609

WACC	Implied Perpetuity Growth Rate				
10.0%	3.2%	4.1%	4.8%	5.4%	5.8%
11.0%	4.1	5.1	5.8	6.3	6.8
12.5%	5.5	6.5	7.2	7.7	8.2
14.0%	6.9	7.9	8.6	9.2	9.6
15.0%	7.9	8.8	9.6	10.1	10.6

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## Pro Forma Transaction Analysis

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## Pro Forma Transaction Analysis

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### Summary of Key Assumptions

- ◆ Acquisition closes on January 1, 2003
- ◆ WATER projections (assumes acquisition of RightCHOICE) as per WATER Management
- ◆ CONGRESS projections as per CONGRESS Management and adjusted to reflect additional assumptions made by WATER Management
- ◆ WATER stock issued at \$140.00 on January 1, 2003
- ◆ \$1.3 billion aggregate value acquisition of CONGRESS accounted for as a purchase for accounting purposes
- ◆ Assumes \$850 million in stock and \$450 million in cash
- ◆ NOL/AMT valuation allowance of \$142 million treated as an asset write-up
- ◆ Approximately \$50.0 million annual tax credit due to NOL/AMT usage in 2003 and 2004 and \$42.0 million in 2005
- ◆ Net Pension Credit Asset write-up of \$22.5 million
- ◆ Bank debt raised at 6.5%
- ◆ Capitalized transaction costs of \$152.5 million
- ◆ Synergies and other transaction expenses as per schedule that follows
- ◆ \$275.3 million of intangibles (\$6.2 million of which is tax-deductible) amortized over a blended period of 26 years
- ◆ Combined entity taxed at WATER's existing marginal tax rate of 38.4%

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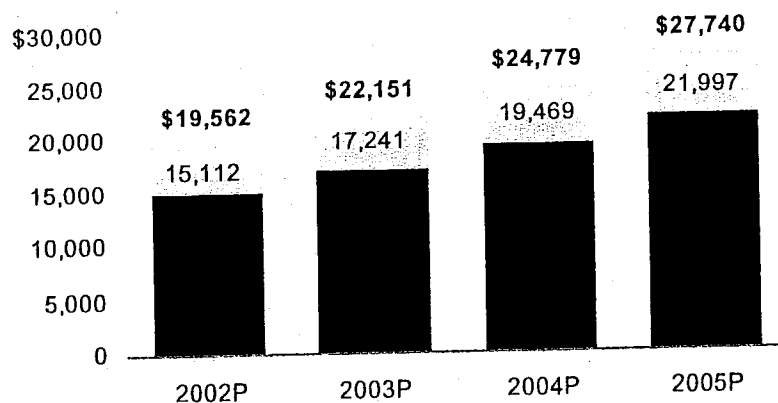


# Pro Forma Transaction Analysis

## Pro Forma Operating Summary

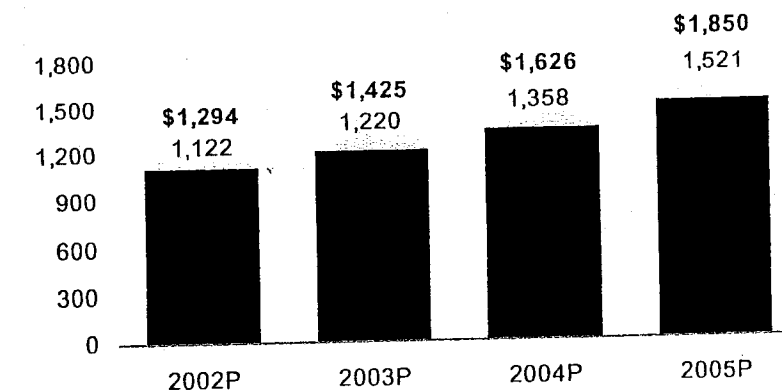
(\$ in millions)

### OPERATING REVENUE



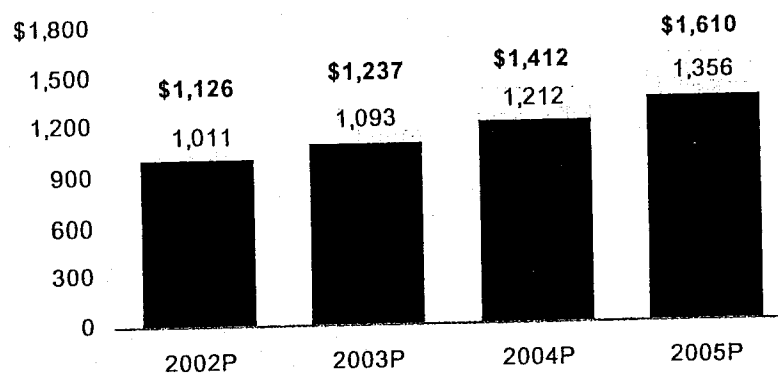
(\$ in millions)

### EBITDA



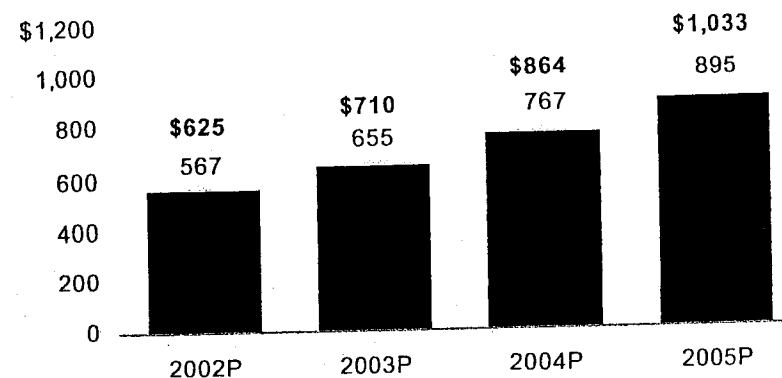
(\$ in millions)

### EBIT



(\$ in millions)

### NET INCOME



■ WATER (includes RightCHOICE) Pro Forma WATER

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# Pro Forma Transaction Analysis

## Synergies & Transaction Expenses

(\$ in millions)

	Fiscal Years Ending December 31,				
	2003P	2004P	2005P	2006P	2007P
<b><u>Transaction Expenses</u></b>					
HR Integration	\$ 1.0	\$ -	\$ -	\$ -	\$ -
Severance	-	2.3	2.3	-	-
IS Stay Bonus	6.9	-	-	-	-
Information Systems Conversion	22.0	22.0	22.0	-	-
Integration Consulting	1.0	-	-	-	-
Internal Integration Expenses	1.0	-	-	-	-
Other	0.5	-	-	-	-
Total	\$ 32.4	\$ 24.3	\$ 24.3	\$ -	\$ -
<b><u>Additional Capital Expenditures</u></b>					
Third Party Software	\$ -	\$ 2.0	\$ 3.0	\$ 7.0	\$ -
New Systems Buildout	8.0	7.0	-	-	-
Facilities	15.1	-	-	-	-
Capital Expenditure Savings	(32.6)	(35.3)	(38.3)	(41.6)	(45.1)
Net Capital Expenditure Savings	\$ (9.5)	\$ (26.3)	\$ (35.3)	\$ (34.6)	\$ (45.1)
<b><u>Synergies</u></b>					
Operating Synergies	\$ 15.0	\$ 30.0	\$ 50.0	\$ 70.0	\$ 70.0

### **Capitalized Transaction Costs**

Fees	\$ 22.0
Severance	6.2
Change of Control	118.9
Insurance Expense	5.0
Other	0.5
Total	\$ 152.5

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# Pro Forma Transaction Analysis

## Summary Pro Forma Analysis (a)

(\$ and Total Membership in millions, except per share data)

Fiscal Years Ending December 31,						CAGR
	2003P	2004P	2005P	2006P	2007P	2003 – 2007
<b><u>Pro Forma Statistics</u></b>						
Total Membership	17.5	18.4	19.3	20.2	21.2	4.9%
Operating Revenue	\$ 22,151.4	\$ 24,779.1	\$ 27,740.2	\$ 31,052.6	\$ 34,764.4	11.9%
Growth		11.9%	12.0%	11.9%	12.0%	
EBITDA	1,425.4	1,625.7	1,849.7	2,081.9	2,288.0	12.6%
Margin	6.4%	6.6%	6.7%	6.7%	6.6%	
EBIT	1,237.0	1,411.6	1,610.1	1,822.8	2,038.4	13.3%
Margin	5.6%	5.7%	5.8%	5.9%	5.9%	
Net Income	709.9	864.1	1,032.5	1,229.2	1,419.6	18.9%
Margin	3.2%	3.5%	3.7%	4.0%	4.1%	
Capital Expenditures	187.5	180.6	188.1	203.8	218.5	3.9%
<b><u>Accretion / (Dilution) Analysis</u></b>						
Pro Forma Diluted EPS	\$8.83	\$10.75	\$12.84	\$15.29	\$17.65	18.9%
Growth		21.7%	19.5%	19.1%	15.5%	
Standalone Diluted EPS	\$8.82	\$10.31	\$12.03	\$13.83	\$15.91	15.9%
Accretion / (Dilution)	0.1%	4.2%	6.7%	10.5%	11.0%	
Addtl. Pre-Tax Synergies Required for Break-Even	--	--	--	--	--	
As a % of CONGRESS G&A	--	--	--	--	--	
<b><u>Balance Sheet as of December 31,</u></b>						
	2003P	2004P	2005P	2006P	2007P	
Total Debt / Total Capitalization	10.6%	9.2%	8.0%	7.0%	6.0%	
Total Debt / EBITDA	0.4x	0.4x	0.3x	0.3x	0.3x	
EBITDA / Net Interest Expense	39.0	NM	NM	NM	NM	
(EBITDA - CapEx) / Net Interest Expense	33.9	NM	NM	NM	NM	

(a) Assumes consideration of \$850 million in stock and \$450 million in cash.

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# Pro Forma Transaction Analysis

## Sensitivity Analysis: WATER Stock Price

### Accretion/Dilution Analysis

(\$ in millions, except per share data)

2003 Accretion/Dilution Analysis						
Equity Value	WATER Stock Price					
	\$70.00	\$100.00	\$114.59	\$120.00	\$140.00	\$160.00
\$1,300.0	(6.9%)	(2.8%)	(1.5%)	(1.1%)	0.1%	1.1%

2004 Accretion/Dilution Analysis						
Equity Value	WATER Stock Price					
	\$70.00	\$100.00	\$114.59	\$120.00	\$140.00	\$160.00
\$1,300.0	(3.1%)	1.2%	2.5%	2.9%	4.2%	5.2%

### Synergies to Break-Even

2003 Break-Even Additional Pre-Tax Synergies Analysis						
Equity Value	WATER Stock Price					
	\$70.00	\$100.00	\$114.59	\$120.00	\$140.00	\$160.00
\$1,300.0	\$85.6	\$33.5	\$18.0	\$13.2	—	—

2004 Break-Even Additional Pre-Tax Synergies Analysis						
Equity Value	WATER Stock Price					
	\$70.00	\$100.00	\$114.59	\$120.00	\$140.00	\$160.00
\$1,300.0	\$44.6	—	—	—	—	—

Note: Shaded boxes represent projected WATER stock price at time of closing.

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